

# Cache Logistics Trust

Holding arrangement at Schenker Megahub

SINGAPORE | REAL ESTATE (REIT) | UPDATE

29 September 2016

- 3QFY16 results could see some weakness for Cache
- Biggest items to look out for are Court proceedings over Schenker Megahub and the conversion of Hi-Speed Logistics Centre

## What is the news?

Cache Logistics Trust (Cache) had announced that it has entered into a holding arrangement with Schenker Singapore Pte Ltd (Schenker) in relation to the Schenker Megahub property located at 51 Alps Avenue, pending the resolution of the Court proceedings commenced by Schenker. Schenker will pay Cache a holding rent of \$0.77 psf/month, which Cache will receive "under protest". The holding arrangement will not be prejudicial to Cache's right against C&P Land Pte Ltd and C&P Holdings.

## How do we view this?

### Holding rent at Schenker Megahub is significantly lower than last rent paid

Based on FY15 annual report, gross revenue contribution from Schenker Megahub was S\$7.9mn. Gross floor area of the property is 439,956 sqft. This works out to an average rent of \$1.50 psf/month in FY15. The holding rent of \$0.77 psf/month is almost 50% lower than the last rent paid.

### Expect weaker 3QFY16 and 4QFY16 on a qoq basis

Quarter-on-quarter (qoq) weakness in 3QFY16 will come from the lower rent at Schenker Megahub, but this negative development could be subsequently reversed if the outcome of the Court proceedings is favourable to Cache. Qoq weakness in 4QFY16 will come from the conversion of Hi-Speed Logistics Centre to multi-tenanted building, resulting in a negative impact at the net property income (NPI) level. Schenker Megahub and Hi-Speed Logistics Centre will contribute c.6% and c.5% respectively, to FY16 portfolio gross revenue, by our estimates.

### 3QFY16 core recurring DPU expected to be lower yoy

3QFY15 distribution per unit (DPU) declared was 2.14 cents; this included S\$1.5mn of capital distribution from the sales proceeds from the disposal of the Kim Heng warehouse. The core recurring DPU in 3QFY15 was 1.95 cents. Excluding capital distribution, we forecast core recurring 3QFY16 DPU to be 1.81 cents. The lower year-on-year (yoy) DPU is mainly due to the dilutive effects of the Placement that was done in 4QFY15.

### Downgrade to "Reduce" rating with lower DDM valuation of S\$0.81 (previous: S\$0.85)

In view of the lower rent from Schenker Megahub, we have trimmed our gross revenue and DPU estimates for FY16e/FY17e/FY18e by 1.5%/3.6%/3.6% and 1.7%/4.6%/4.7%, respectively.

## Peer relative data

	Mkt. Cap. (\$\$mn)	Price (\$)	Trailing P/NAV (x)	12M trailing yield (%)
Mapletree Logistics Trust	2,712	1.085	1.08	6.8
Cache Logistics Trust	816	0.910	1.05	9.1

Source: Bloomberg (Updated: 28 September 2016)

## Reduce (Downgrade)

LAST CLOSE PRICE	SGD 0.910
FORECAST DIV	SGD 0.079
TARGET PRICE	SGD 0.810
TOTAL RETURN	-2.32

## COMPANY DATA

O/S SHARES (MN):	896
MARKET CAP (USD mn / SGD mn):	600 / 816
52 - WK HI/LO (SGD):	1.04 / 0.81
3M Average Daily T/O (mn):	2.32

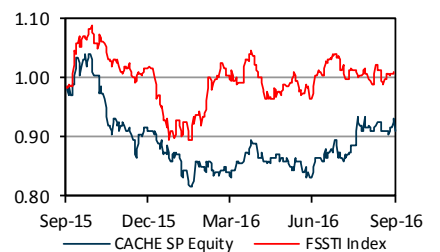
## MAJOR SHAREHOLDERS (%)

BANK OF NEW YORK MELLON CORP	4.4%
CWT LTD	4.4%
CAPITAL GROUP COMPANIES INC	4.3%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	16	14.6	2.7
STIRETURN	0.1	6.5	5.0

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 15	FY 16e	FY 17e	FY 18e
Gross Rev. (SGD mn)	89.7	109.6	106.9	106.7
NPI (SGD mn)	76.2	87.0	83.4	83.2
Dist. Inc. (SGD mn)	62.9	71.1	63.0	62.5
P/NAV (x)	1.00	1.07	1.09	1.10
DPU, adj (Cents)	8.50	7.90	6.81	6.65
Distribution Yield, %	9.6	8.5	7.3	7.1

Source: Company Data, PSR est.

## VALUATION METHOD

DDM (Cost of Equity: 7.8%; Terminal g: 0.0%)

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
<b>Gross revenue</b>	<b>82.9</b>	<b>89.7</b>	<b>109.6</b>	<b>106.9</b>	<b>106.7</b>
Property expenses	(4.9)	(13.6)	(22.6)	(23.5)	(23.5)
<b>Net property income</b>	<b>78.0</b>	<b>76.2</b>	<b>87.0</b>	<b>83.4</b>	<b>83.2</b>
Net Finance (Expense)/Inc.	(12.3)	(14.1)	(19.2)	(20.0)	(21.0)
Manager's fees	(6.7)	(7.5)	(7.9)	(7.9)	(7.9)
Other items	(1.9)	(1.6)	(2.6)	(2.5)	(2.4)
Exceptional items	-	-	-	-	-
<b>Net income</b>	<b>57.1</b>	<b>53.0</b>	<b>57.3</b>	<b>53.0</b>	<b>51.9</b>
FV change, Invmnt. properties	9.0	(64.7)	-	-	-
<b>Total Return Before Tax</b>	<b>66.1</b>	<b>(11.7)</b>	<b>57.3</b>	<b>53.0</b>	<b>51.9</b>
Taxation	(0.3)	(0.6)	(1.0)	(0.8)	(0.8)
<b>Total Return After Tax</b>	<b>65.8</b>	<b>(12.3)</b>	<b>56.3</b>	<b>52.2</b>	<b>51.1</b>
Distribution adjustments	1.1	75.2	10.2	10.7	11.4
Portion of sales proceeds	-	5.1	4.6	-	-
<b>Income available for distribution</b>	<b>66.9</b>	<b>62.9</b>	<b>71.1</b>	<b>63.0</b>	<b>62.5</b>
<b>Income distributed</b>	<b>66.9</b>	<b>62.9</b>	<b>71.1</b>	<b>63.0</b>	<b>62.5</b>

### Per share data (Cents)

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV	98.0	88.0	86.6	85.4	84.4
EPU	8.45	(1.47)	6.28	5.79	5.62
DPU	8.57	8.50	7.90	6.81	6.65

\*Forward EPU does not include change in Fair Value of Investment Properties

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
<b>CFO</b>					
Net income	57.1	53.0	57.3	53.0	51.9
Adjustments	17.5	20.0	26.1	27.3	29.0
WC changes	(0.5)	2.7	3.7	2.2	(2.3)
Cash generated from ops	74.1	75.7	87.1	82.6	78.6
Others	(0.3)	(0.6)	(1.0)	(0.8)	(0.8)
<b>Cashflow from ops</b>	<b>73.8</b>	<b>75.1</b>	<b>86.1</b>	<b>81.8</b>	<b>77.8</b>
<b>CFI</b>					
CAPEX, net	(63.5)	(80.5)	(2.2)	(3.1)	(4.2)
Purchase of Inv. Propty.	-	(182.5)	-	-	-
Others	0.2	0.1	-	-	-
<b>Cashflow from investments</b>	<b>(63)</b>	<b>(263.0)</b>	<b>(2.2)</b>	<b>(3.1)</b>	<b>(4.2)</b>
<b>CFF</b>					
Share issuance, net	-	100.0	-	-	-
Loans, net of repayments	42.2	173.1	10.0	10.0	10.0
Dividends	(66.7)	(74.2)	(72.4)	(63.3)	(60.8)
Others	(15.5)	(14.2)	(19.2)	(20.0)	(21.0)
<b>Cashflow from financing</b>	<b>(40.1)</b>	<b>184.7</b>	<b>(81.6)</b>	<b>(73.3)</b>	<b>(71.8)</b>
<b>Net change in cash</b>	<b>(29.5)</b>	<b>(3.2)</b>	<b>2.3</b>	<b>5.5</b>	<b>1.8</b>
Effects of exchange rates	0.0	(0.0)	-	-	-
<b>Ending cash</b>	<b>11.3</b>	<b>8.1</b>	<b>10.4</b>	<b>15.9</b>	<b>17.7</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
<b>ASSETS</b>					
Investment properties	1,044	1,308	1,308	1,308	1,308
Inv. Propty. Under Devmnt.	75.7	-	-	-	-
PPE	1.8	3.0	4.3	5.9	8.1
Others	0.2	1.8	1.8	1.8	1.8
<b>Total non-current assets</b>	<b>1,122</b>	<b>1,313</b>	<b>1,314</b>	<b>1,316</b>	<b>1,318</b>
Cash	11.3	8.1	10.4	15.9	17.7
Trade receivables	3.5	5.0	3.9	4.7	4.8
Others	0.1	0.4	0.4	0.4	0.4
<b>Total current assets</b>	<b>14.8</b>	<b>13.4</b>	<b>14.8</b>	<b>21.0</b>	<b>22.9</b>
<b>Total Assets</b>	<b>1,137</b>	<b>1,326</b>	<b>1,329</b>	<b>1,337</b>	<b>1,341</b>
<b>LIABILITIES</b>					
Trade payables	20.5	14.3	16.9	20.0	17.8
Borrowings	6.6	8.3	8.3	8.3	8.3
Others	-	-	-	-	-
<b>Total current liabilities</b>	<b>27.1</b>	<b>22.6</b>	<b>25.2</b>	<b>28.3</b>	<b>26.1</b>
Borrowings	343	515	525	535	545
Others	0.4	2.1	2.1	2.1	2.1
<b>Total non-current liabilities</b>	<b>343</b>	<b>517</b>	<b>527</b>	<b>537</b>	<b>547</b>
<b>Total Liabilities</b>	<b>370</b>	<b>540</b>	<b>552</b>	<b>566</b>	<b>573</b>
<b>Net assets</b>	<b>767</b>	<b>787</b>	<b>776</b>	<b>771</b>	<b>768</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>767</b>	<b>787</b>	<b>776</b>	<b>771</b>	<b>768</b>

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	1.20	1.00	1.07	1.09	1.10
P/DPU (x)	13.68	10.39	11.78	13.65	14.00
Distribution Yield (%)	7.31	9.62	8.49	7.33	7.15
NPI yield (%)	7.50	6.47	6.65	6.37	6.36

### Growth & Margins (%)

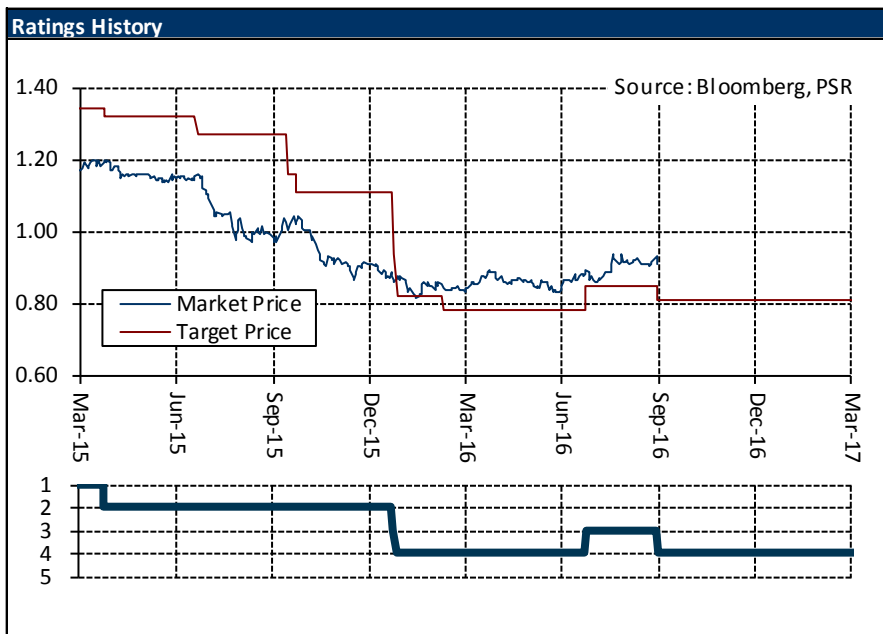
<b>Growth</b>					
Revenue	2.3%	8.3%	22.2%	-2.5%	-0.2%
Net property income (NPI)	1.5%	-2.4%	14.2%	-4.2%	-0.2%
Distributable income	2.0%	-6.0%	13.0%	-11.4%	-0.8%
DPU	-	-0.9%	-7.1%	-13.7%	-2.5%

### Margins

NPI margin	94.1%	84.9%	79.4%	78.0%	78.0%
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### Key Ratios

Net Debt or (Net Cash)	338.0	515.4	523.0	527.6	535.8
Gearing (%)	30.7%	39.5%	40.1%	40.7%	41.3%



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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